

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 5787

**DEPARTMENT OF NATURAL RESOURCES**

Agency No. 490

July 1, 1995 Through June 30, 1996

Issue Date: March 14, 1997

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## DEPARTMENT OF NATURAL RESOURCES

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### Overview

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We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Natural Resources included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There was one finding, which is listed in the Schedule of Findings following this Overview, for the Department of Natural Resources.

Brian Sonntag  
State Auditor

January 31, 1997

DEPARTMENT OF NATURAL RESOURCES  
Agency No. 490  
July 1, 1995 Through June 30, 1996

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Schedule Of Findings

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1. The Department Of Natural Resources (DNR) Should Improve Controls Over Receivables

Our audit of DNR's receivable balances revealed the following deficiencies:

- a. Subsidiary ledger accounts have not been reconciled with the general ledger.
- b. The agency's receivable subsidiary records contained inaccurate and misclassified information. Discrepancies identified as of June 30, 1996, included closed timber contracts with outstanding receivable balances in the amount of \$91,110,415 still being reported, inappropriate receivables being recorded in the amount of \$361,401,454, and other inaccurate short-term receivable balances in the amount of \$13,704,365 that we recommended be removed for financial statement purposes. Of the discrepancies noted, none had an effect on agency revenue balances.

The state of Washington Office of Financial Management's (OFM) *Policies, Regulations, and Procedures* manual Section 2.2.4.3.6 requires that agencies establish and maintain a detailed subsidiary ledger.

OFM manual Section 2.2.4.3.6 states:

- b. Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.
- c. Current subsidiary ledgers are to be periodically purged of accounts/items which are no longer outstanding.

Section 6.2.2.1.8 further states:

- d. Control accounts are to be balanced with the detailed ledgers at least monthly.

Without an adequate system of internal control over the receivables system, errors or irregularities could occur and not be detected by management in a timely manner. These receivable deficiencies limit management's ability to determine whether the amounts owed the state are proper and collectible. The lack of an accurate subsidiary ledger can also result in lost revenue and precludes the proper reporting of receivable balances.

DNR personnel indicated that they do not have a suitable receivables reporting system that enables them to perform the required monthly reconciliation. In addition, the decentralized nature of the receivables system has allowed errors to be made in the field in accounting for the DNR receivables. These errors were not detected because of the lack of monitoring controls.

We recommend that DNR establish procedures necessary to comply with OFM regulations related to receivables.

Auditee's Response

*We agree with the findings that the long-term contract receivables and unbilled receivables have not been reconciled with the general ledger. The inaccurate amounts mentioned in the finding are receivables related to contracts for timber, leases, and other resources and they are offset with deferred revenue. Current-period revenues are watched very closely by management and others. The Revenue Management System (RMS) was developed without adequate reporting capability for these receivables. Without reports reconciliations are difficult. However, we've taken the following actions to reconcile the accounts:*

- 1. We now receive a report listing all contract balances. We use this report to reconcile the subsidiary ledger (RMS) to the general ledger accounts and have purged many closed timber contracts in the system.*
- 2. We've implemented a procedure to check receivable balances when each timber sale is reviewed prior to closing the sale.*
- 3. The receivable balances for non-timber agreements are being reduced or removed monthly from the general ledger.*

*We continue to work with our Information Technology staff to upgrade RMS to create and correctly account for long-term receivables. We're also working with program staff in the department's Geology and Earth Resources Division (for surface mining permits) and our region offices to determine which contract receivables should be reported according to OFM regulations, and we're bringing these into compliance.*

Auditor's Concluding Remarks

We appreciate the corrective actions taken by the agency and will review the results during our next audit.